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SUBJECT: RUSSIA: CEMENTING OUR ECONOMIC RELATIONS

REF: MOSCOW 11239

Classified By: Ambassador William J. Burns for reasons 1.4 (b/d).

11. (C) Summary: After thirteen years of tough negotiations, we finally have in hand a bilateral agreement on Russia's accession to the WTO. Understanding that we are not yet out of the woods, with hard work ahead in the multilateral forum, we should take full advantage of the improved atmosphere generated by our landmark deal to strengthen economic ties and bolster GOR reformers who, having delivered the bilat, remain critical to Russia's economic modernization and our bilateral economic relations over the upcoming electoral cycle.

12. (C) Certainly one way to build positive momentum is to increase the tempo and level of visits - in both directions. This could include a trade mission led by Secretary Gutierrez, visits by USTR Schwab and Secretary Johanns, and meetings in Moscow or Washington of other senior executive and legislative branch officials and their Russian counterparts. End summary.

A Trade Mission:
The Timing is Right

13. (C) A DOC-led trade mission in the spring of 2007 would focus on the commercial opportunities created by Russia's economic growth of the past eight years, would reciprocate the 2005 Russian trade mission led by Industry and Energy Minister Khristenko, and would likely enjoy the same entree here Khristenko enjoyed in Washington. While we cannot be driven by others' agendas, our European counterparts have led a number of widely hailed missions to Russia over the past year. Moreover, a mission is about much more than providing Kremlin access to U.S. companies -- it is a clear signal of our interest in broader and deeper commercial relations.

14. (C) U.S. firms have been among the most energetic investors, and 2006 FDI is likely to be triple that of just two years ago. Just this year, International Paper, Boeing, Ford, GM, ConocoPhillips, Coca Cola, and Guardian Glass have announced or told us of plans to put anywhere from \$150 million to \$1 billion in Russia over the next few years. Large consumer goods companies like Walmart now appear ready

to jump in with significant initial investments. Others, including Alcoa, Citigroup, John Deere, Dow, ExxonMobil, Cargill, Procter and Gamble, United Technologies and General Electric have been steadily increasing their presence here, spurred on by a consumer boom and double-digit sales growth.

15. (SBU) Among the BRIC countries, Russia is the second fastest growing economy, with the highest Gross National Income and Gross Domestic Product per capita. FDI as a percentage of GDP is now in line with Poland and Mexico and is moving into China territory (i.e., over 3% of GDP). Reflecting the ongoing consumer spending boom (spurred by real average income growth of 66% over the past five years), investment is diversifying away from the oil and gas sectors into manufacturing and consumer goods and services. A new GOR Investment Fund of over \$20 billion to finance infrastructure, six new Special Economic Zones and a \$100 million World Bank credit line to finance seven technoparks offer a wide array of opportunities to U.S. firms. Companies such as Intel, Motorola, Boeing, and IBM are taking advantage of Russia's affordable and well-trained human capital to establish and expand engineering/R&D centers here.

Time to Retool our Trade Policy Dialogue

16. (C) An early 2007 visit by USTR Schwab would not only reinforce the GOR reformers who delivered on our bilateral WTO deal, but could serve as a platform to launch discussion of a new architecture for our trade policy dialogue. Over the past few years, much of trade dialogue was of necessity placed under the rubric of our bilateral WTO negotiations. We need a new forum to take us into the post-accession era. Our trading partners are already ahead of us: the European Commission, the UK, France, Finland, Germany, and Italy have

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all established multi-tiered dialogues including annual or semi-annual high level meetings and sector specific working groups on issues ranging from civil aviation, to regulatory reform, agriculture, and transportation. Successful economic dialogue models routinely include a hefty business component, and a new generation Russian-American Business Dialogue appears in order, which could be another trade mission outcome. USTR Schwab is also well-placed to help orient Russia to the post-accession challenge of participation in ongoing global trade liberalization talks.

Moving Ahead on Agriculture

17. (C) The proposed visit of Secretary Johanns in September 2007 would demonstrate we have moved beyond the contentious agricultural discussions that plagued our bilateral market access negotiations and to focus on ways in which Russia's agricultural sector will benefit from Russia's eventual WTO membership. To get the most out of the proposed September visit, steps could be taken now to resuscitate the bilateral agriculture cooperation MOU, dormant since 2003. The Russian Agriculture Ministry has signed MOUs with other counterparts, most recently with the EU, and will be looking for a similar gesture on the part of the USG. Obviously, Minister Gordeyev and his veterinary service chiefs were resistant to concluding our bilateral market access agreement, with its side letters and new beef and pork health certificates. Gestures such as revitalizing the MOU and early confirmation of a Secretarial visit to Russia could help curb their instincts to take out frustrations in ways detrimental to our bilateral agricultural trade.

Transportation, IPR and Energy

18. (C) Already in the works are visits on transportation, IPR and energy. Transportation Secretary Peters recently invited

her counterpart, Minister Levitin, to Washington in the next two months to discuss establishing a bilateral Transportation Working Group focused on security and infrastructure development. Deputy USTR Shaun Donnelly will lead the U.S. delegation to Moscow late this year or early next for the semi-annual bilateral IPR Working Group meeting focused on legislation and enforcement. In addition, Deputy Secretary of Energy Clay Sell plans to visit Moscow early next year for a meeting of the bilateral Energy Working Group focused on regulatory and investment climate issues and technical cooperation. The same progressive Russians who helped deliver the WTO agreement have been long-standing supporters of information sharing in areas such as licensing, taxation, LNG, and pipelines.

Additional Opportunities

¶9. (C) Executive and legislative branch contact with Russian counterparts, either in Moscow or Washington, reinforce our economic relations and move Russia toward stronger economic legislation and institutions. Examples of what could be pursued include: greater cooperation between GAO and the Russian Audit Chamber on parallel audits and personnel exchanges; follow-up to the Russian Central Bank proposal to formalize information exchange with the Federal Reserve on money laundering and terrorism financing; cooperation between OMB and the Russian National Institute for Technical Regulation to share U.S. experience in regulation drafting and implementation; and a continuation of successful cooperation between the Federal Trade Commission and the Russian Antimonopoly Service on Russian antimonopoly legislation and better consumer protection.

Continuing Russia's Integration into the Global Economy

¶10. (C) As we strengthen our bilateral economic ties, we should continue to encourage and support Russia's integration into international economic institutions that require greater adherence to global norms and behavior. There is much to be gained from Russia's eventual membership in the OECD

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(reftel). Opening the door, and laying out clear, tough benchmarks for Russia's OECD membership would reinforce Putin's economic modernization instincts and, once again, bolster the tenuous role of reformers within the Russian bureaucracy. Within the IEA (of which Russia is not a member) cooperation should continue between U.S. and other members on Russia-specific issues.

¶11. (C) As the U.S. and Russia approach their election cycles next year, political rhetoric will sharpen on both sides of the Atlantic. This, added to the potential divergence of views on how to handle inherently thorny subjects such as Iran, North Korea, and Russia's neighborhood, argues strongly for doing what we can now to reinforce economic and commercial ties that can keep our relationship on a more even keel. The bilateral WTO deal, capping years of tough negotiations, is the best opportunity we see on the horizon to bolster our economic dialogue and commercial ties and ensure that Russia's economic modernization has sufficient momentum to weather the coming elections.

BURNS